

WESTERN AUSTRALIA

VEGETABLE INDUSTRY BENCHMARKS



2017-18 FINANCIAL YEAR



**Hort
Innovation**



Department of
Primary Industries and
Regional Development

Prepared by
**vegetablesWA and
Planfarm Pty Ltd**

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KEY INSIGHTS

The vegetablesWA & Planfarm vegetable industry benchmarks is WA's second annual report into the financial and production performance of the state's vegetable grower businesses.

The 2017–18 is the second edition of the annual report, after last years 2016–17 edition, and contains significant insight into the financial performance of Western Australian vegetable growers.

Key insights are:

- There were positive outcomes for the entire vegetable industry which covered a wide range of results.
- The most profitable growers, were not those from a particular area, of greater scale or a particular vegetable type, but those that were able to achieve a higher income per hectare, while keeping costs as a percentage of income below 65%.
- The most profitable growers were also focused heavily on vegetable production, allocating 100% of their area to growing vegetables.
- The growers who were particularly focused on financial management, produced greater returns.
- The most profitable producers were not necessarily the largest producers in terms of land area utilised.
- The vegetable industry can generate great returns comparable with any other industry or investment type.
- There are opportunities for change to improve profits for those with lower results.
- Overall industry average numbers will change as the benchmarks evolve to include more businesses and we develop the measures used to benefit the industry.





ABOUT THIS RESEARCH

This report is published primarily for the benefit of Western Australian vegetable growers and those involved in the Western Australian vegetable industry. The 2017–18 vegetablesWA & Planfarm benchmarks are derived from a number of businesses located across Western Australia.

The two key outputs of this benchmarking initiative is the production of an overall industry report and a personalised individual grower report, for each participating grower. The industry report aims to provide a snapshot of where the vegetable industry in WA is positioned, while the grower report drills down into the individual growers financial and production information. Doing this highlights the strengths and development opportunities of an individual business, while comparing productivity and profitability measures against the average and then providing feedback to help drive the individual growers performance over the short and long term.

For more information about the vegetable benchmarking or any other products offered by vegetablesWA or Planfarm and any questions related to this report, please feel free to contact us.

PRESENTATION OF FINANCIAL RESULTS

This report is the analysis of the 2017–18 financial year results, at the end of this report the 2017–18 results are compared back to the updated 2016–17 results.

For the 2017–18 benchmarking, the growers were ranked on their vegetable operating profit per vegetable cropped hectare. Vegetable operating profit per hectare is calculated by taking vegetable operating costs away from vegetable enterprise income, with any other enterprise expenses and income removed. This allows for growers to be ranked on the profitability of their vegetable enterprise.

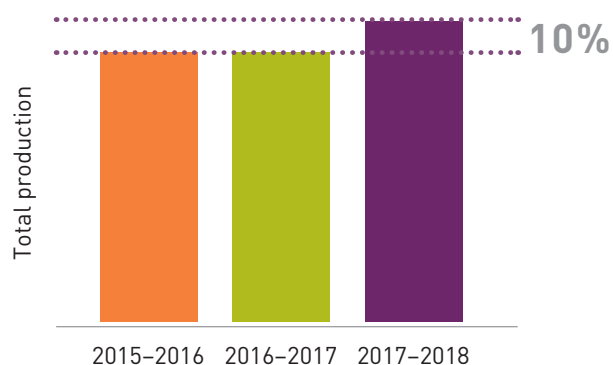
Throughout this report you will see vegetable grower results being presented ranked on the average, the top 25% and the bottom 25%. The average is the average of the whole data set while the bottom 25% and the top 25% results are the average of the bottom 25% and top 25% respectively.

Note that for the measures such as the vegetable operating costs percentage and the equity percentage they are calculated individually for every client and then averaged. They are not calculated using the average vegetable income/costs or average net equity/assets. This is an important distinction to make as they will both return different results.

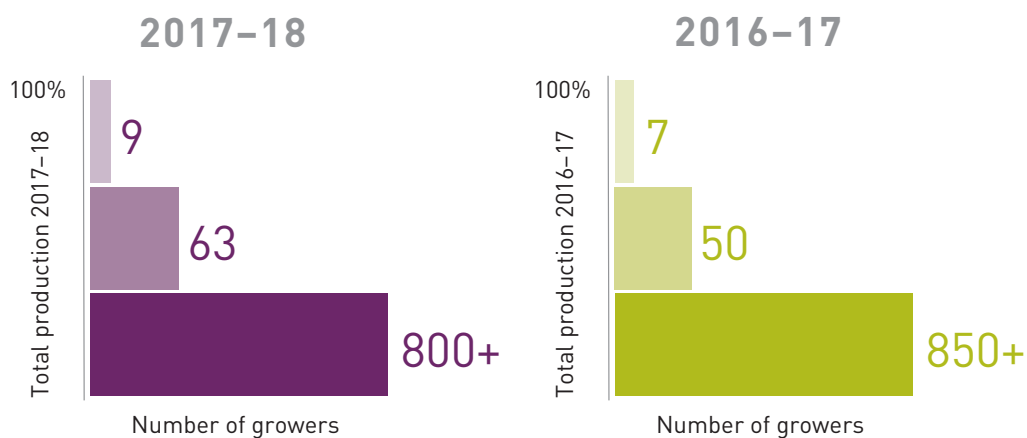
VEGETABLE INDUSTRY INFORMATION

TOTAL PRODUCTION

There was a 10% increase in sold vegetable production between 2017–18 and the two preceding years 2015–16 and 2016–17.



SPREAD OF VEGETABLE GROWER PRODUCTION IN WA

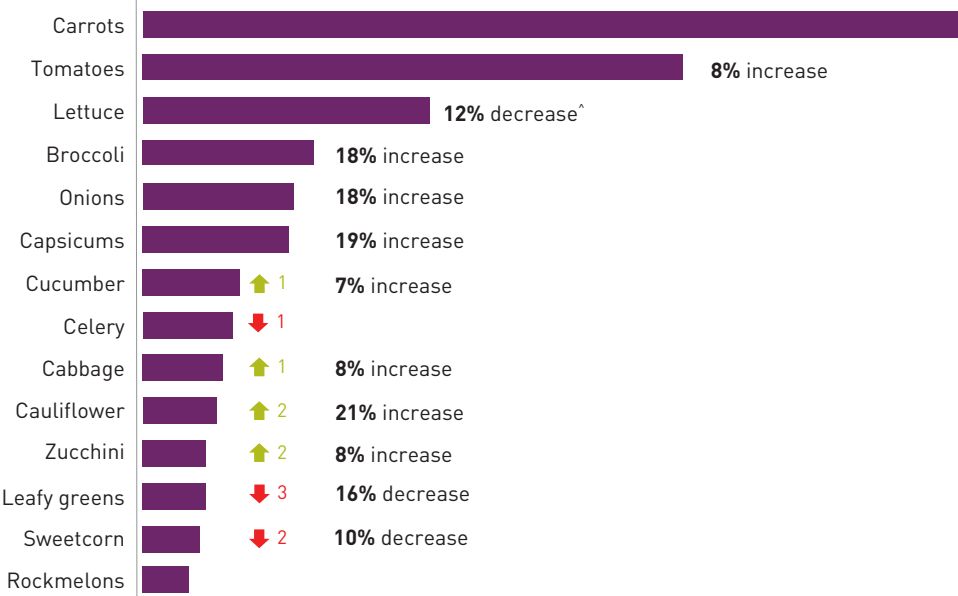


Understanding the spread of vegetable growers in WA:

- the first third of total production was produced by the nine largest producers
- the second third of total production was produced by the next 63 producers
- the last third of total production was produced by the remaining 800+ growers
- there was a reduction of 6% of growers from 2016–17 — these were from the last third

The insights are provided from analysis and assumptions drawn from the Agricultural Produce Commission Vegetable Producers Committee fee for service data

TOP 14 VEGETABLE LINES RANKED BY SOLD PRODUCTION IN 2017-18 — 80% OF TOTAL



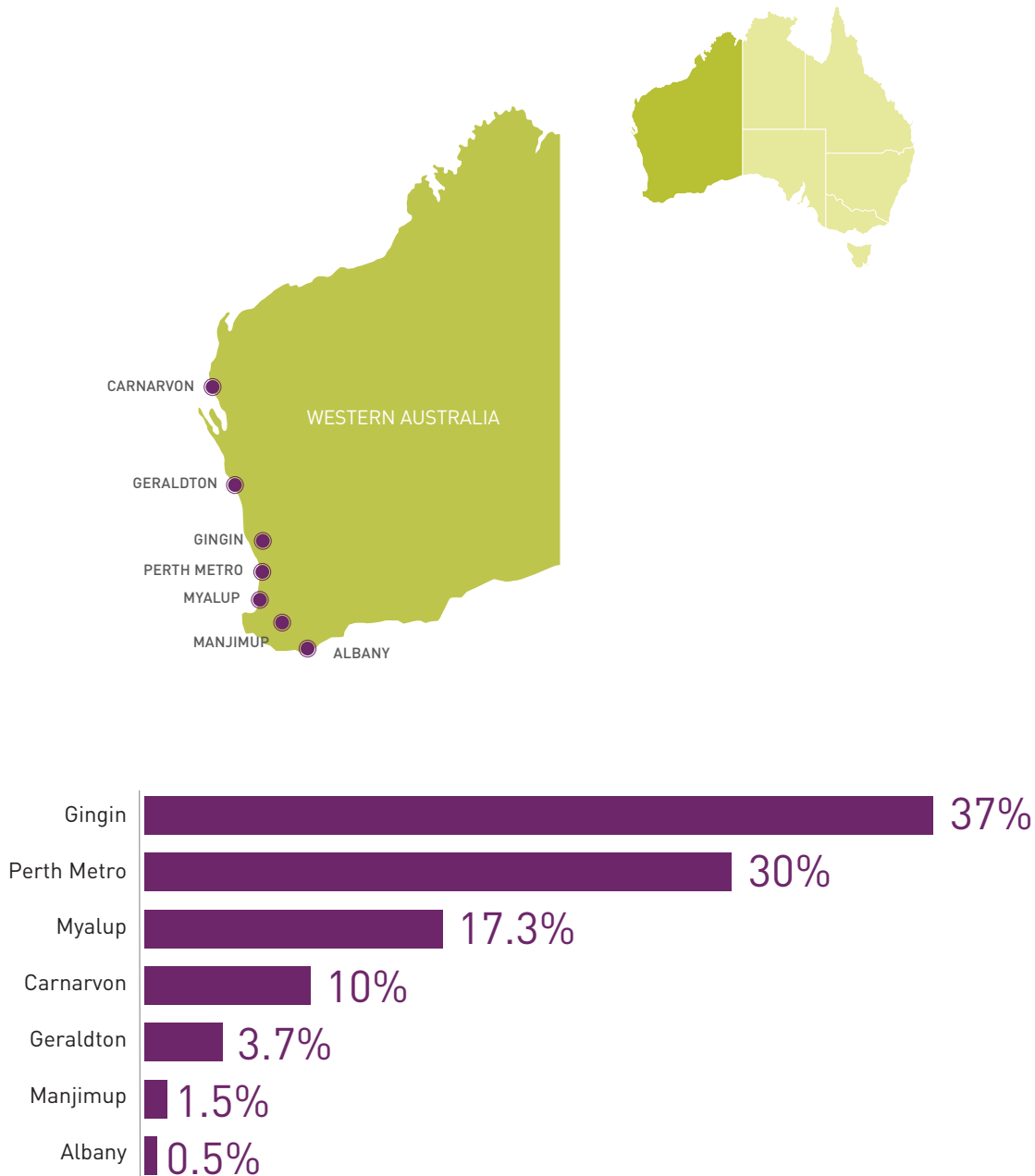
[^] Decrease due to refinement of the APC-VPC lettuce category
Arrows and numbers denotes in a change in rank and sold production change from 2016-17 to 2017-18



The insights are provided from analysis and assumptions drawn from the Agricultural Produce Commission Vegetable Producers Committee fee for service data

VEGETABLE INDUSTRY INFORMATION CONTINUED...

REGIONAL PRODUCTION IN 2017-18

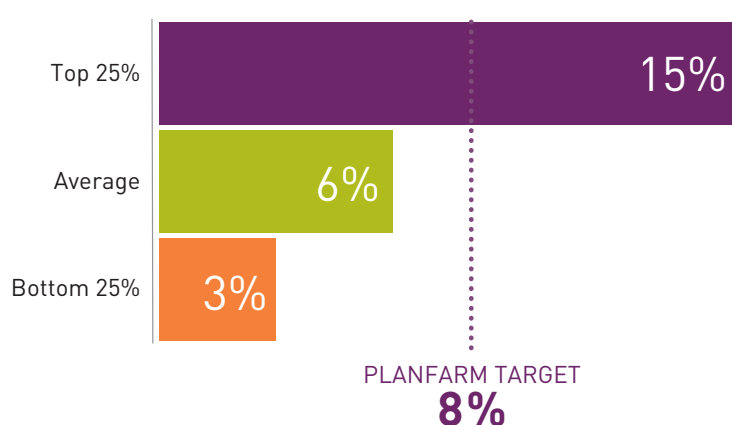


The insights are provided from analysis and assumptions drawn from the Agricultural Produce Commission Vegetable Producers Committee fee for service data

WA VEGETABLE GROWER PERFORMANCE

THE 2017-18 FINANCIAL YEAR PROVIDED VARIABLE RESULTS FROM PARTICIPANTS. THE AVERAGE RETURN ON CAPITAL WAS 6%.

2017-18 RETURN ON CAPITAL



KEY FINDINGS:

- Western Australian vegetable growers achieved an average return on capital of 6% in the 2017-18 financial year. The top 25% had a return on capital of 15% while the bottom 25% had a return on capital of 3%. This highlights the varied performance of vegetable growers.
- The average return on capital of 6% is slightly below the Planfarm farm management consultants benchmark target return on capital of 8%. When achieving a return on capital of 8%, year on year, a business can double its capital base in 10 years!
- It's important to understand that the return on capital measure is a whole business measure. Particularly in the case of some of the bottom 25% who despite making a vegetable operating loss still managed to achieve a positive return on capital as their other enterprise profits outweighed their vegetable operating loss.

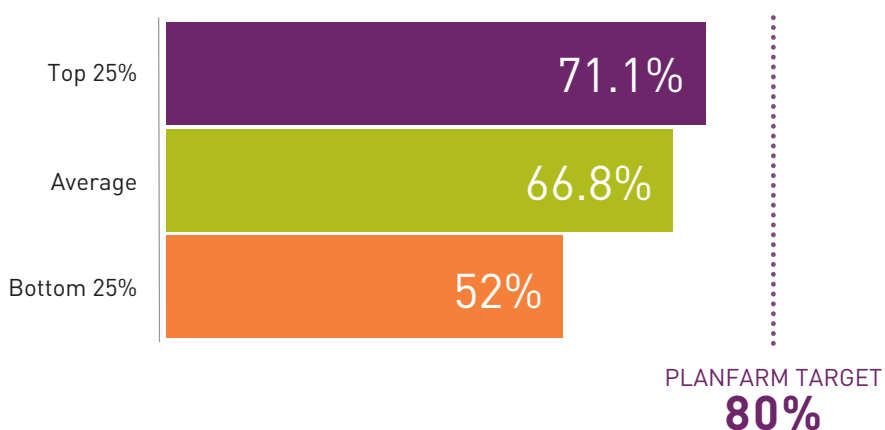
EXPLANATION:

- The return on capital (ROC) is one of the most important financial ratios to consider when examining a growers performance. ROC is the cash return from the capital at the businesses disposal, and does not including any capital gain on land assets.
- The ROC calculation takes liquid farm assets away from total assets. Liquid assets, such as cash at bank and produce on hand, can easily be sold or converted into cash and aren't necessarily part of the initial investment made. Therefore this is a more accurate measure of the return on capital that a business has made.
- The ROC is an important measure that the grower can use to determine how their business is tracking over time and whether they are making sound business decisions. It is also a measure that growers can compare to any other investment.

WA VEGETABLE GROWER PERFORMANCE CONTINUED...

VEGETABLE GROWERS IN WESTERN AUSTRALIA IN THE 2017-18 FINANCIAL YEAR HAVE BALANCE SHEETS WHICH ARE RELATIVELY STABLE BUT STILL HAVE ROOM FOR IMPROVEMENT. AVERAGE BUSINESS EQUITY IS 66.8%.

2017-18 EQUITY % (NON ADJUSTED EQUITY)



KEY FINDINGS:

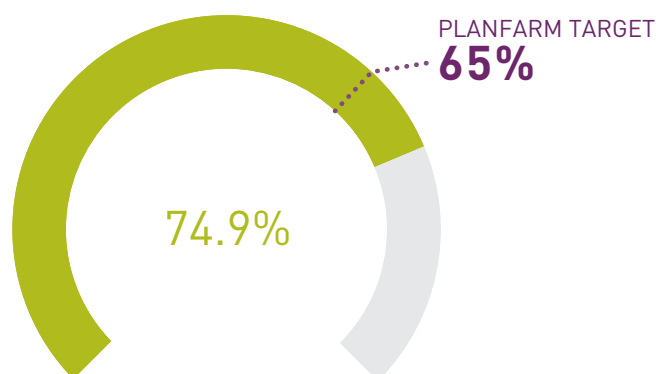
- The average equity position for the 2017-18 benchmarks was 66.8%, with the top 25% being higher at 71.1% and the bottom 25% being lower at 52%. This equity position certainly isn't ideal, with a benchmark target equity percentage of 80% set by Planfarm farm management consultants. This is due to the fact that an equity percentage above 80% can help a business survive shocks such as a negative surplus (deficit) caused from production or pricing catastrophes.

EXPLANATION:

- The graph depicts the equity percentages of the top 25%, the average and the bottom 25%. Equity percentage is a measure of the ownership of total farm assets, it is calculated by dividing total equity by total assets.
- The equity percentage is an important measure that the grower can use to determine their entire business equity ownership.

IN THE 2017-18 FINANCIAL YEAR, WESTERN AUSTRALIAN VEGETABLE GROWERS VEGETABLE OPERATING COSTS AS A PERCENTAGE OF VEGETABLE INCOME WAS 75%.

AVERAGE VEGETABLE GROWERS OPERATING COST %



KEY FINDINGS:

- In the 2017-18 financial year the average Western Australian vegetable grower was able to keep vegetable operating costs to 74.9% of vegetable income, which was an average operating profit per hectare of \$10,788.25.

KEY POINTS:

- Top 25% growers have an operating efficiency of 63%, providing 37% for depreciation, finance/lease costs, drawings and importantly profit.
- With an average operating profit of \$10,788/ha, a reduction of just 5% in operating costs (75% to 70%) would increase operating profit by \$3,140/ha.

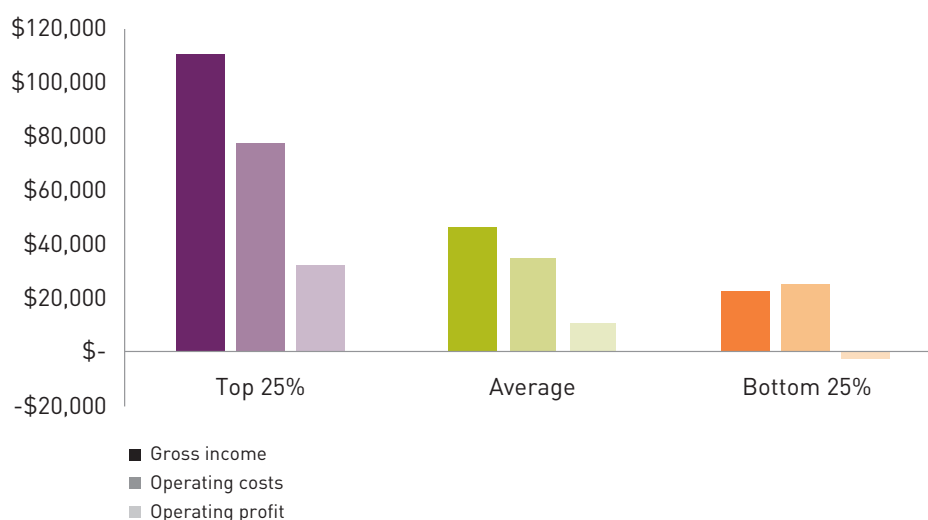
EXPLANATION:

- The vegetable operating cost percentage is a measure of the percentage of the vegetable income that is allocated to covering the seasons vegetable operating costs. Operating costs include the major cost items such as wages, cost of sales and also overhead costs. The target for this metric is 65%.
- The operating cost percentage is an important measure that the grower can use to determine how they turn operating costs into income. If a grower can reduce the operating costs of their business while maintaining the same income or increase income with the same costs then they can increase profitability.

WA VEGETABLE GROWER PERFORMANCE CONTINUED...

THE 2017-18 FINANCIAL YEAR WAS VARIED AND SHOWED VERY LARGE DIFFERENCES BETWEEN THE TOP 25%, THE AVERAGE AND THE BOTTOM 25% OF GROWERS IN TERMS OF THE VEGETABLE INCOME, COSTS AND PROFIT.

2017-18 VEGETABLE INCOME, COSTS AND PROFIT



KEY FINDINGS:

- The results of the 2017-18 financial year show a clear trend in the vegetable income per hectare between the three groups, with the top 25% producing more than double the amount of income per hectare compared to the average grower, and the average growers producing slightly more than double the amount of income as the bottom 25% of growers off the same land area.
- Operating costs in the 2017-18 financial year differed greatly between the top 25% and the rest of the cohort. However the operating costs per hectare only differed slightly when comparing the average to the bottom 25%.

KEY POINT:

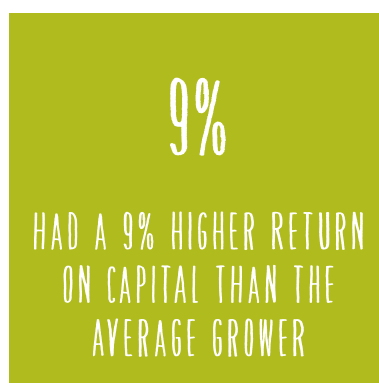
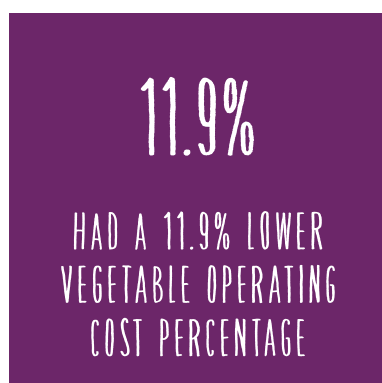
- The top 25% growers appear to have more risk by spending more on operating costs, but also have a strong ability to turn operating costs into income and therefore are rewarded with a much larger profit.

TOP GROWERS IN 2017-18

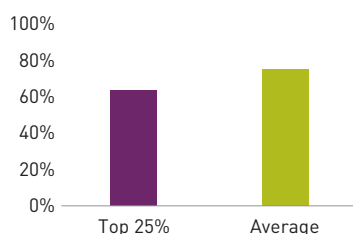
THE TOP 25% OF GROWERS WERE RANKED ON THE VEGETABLE OPERATING PROFIT PER HECTARE.

Other financial markers of the top 25% of growers were:

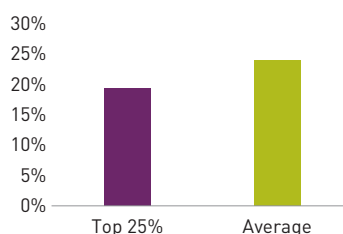
- They had the lowest 'other' farm enterprise profit per hectare when compared to the average and bottom 25% of growers, meaning that they are more focused on vegetables. They are focussed on what they can do, and they do it well.
- They controlled the biggest vegetable growing cost, wages, the best. Wages were kept to just 19.5% of vegetable
- income by the top 25% compared to the industry average of wages being 24% of vegetable income.
- The top 25% of growers managed to produce more vegetable income off the same area as the average grower by more than double the average growers income per hectare.



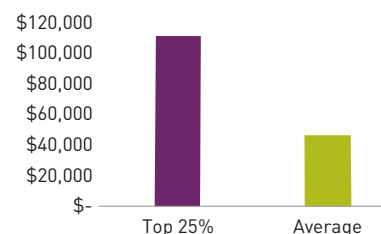
VEGETABLE OPERATING COST % OF VEGETABLE INCOME



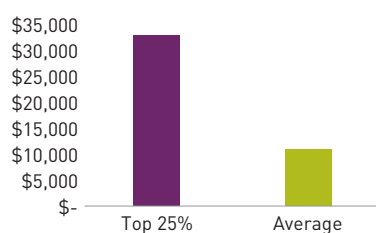
VEGETABLES WAGES COST % OF VEGETABLE INCOME



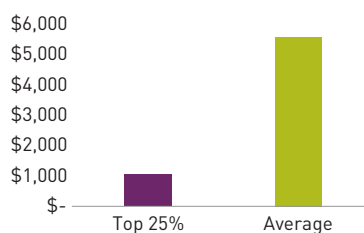
VEGETABLE INCOME AS \$/HA



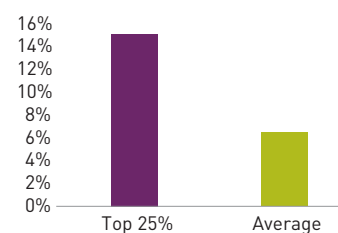
OPERATING PROFIT AS \$/HA



OTHER FARM ENTERPRISE PROFIT AS \$/HA



RETURN ON CAPITAL



TOP GROWERS IN 2017-18 CONTINUED...

THE 2017-18 TOP GROWERS DIDN'T ALL GROW THE SAME VEGETABLE, THEY WEREN'T THE LARGEST FARM SIZE, THEY WEREN'T ALL FROM THE SAME AREA AND THEY DIDN'T ALL VALUE ADD!



1

INCOME PER HECTARE

The top 25% of growers grew nine different types of vegetables between them. The type of vegetable grown didn't make the grower a top 25% grower, but rather maximising the income per hectare while keeping the vegetable costs as a percentage of vegetable income low provided greater returns.

When examining your own business, improving your income per hectare can be done in two ways, the first is increasing your saleable yield per hectare and the second is getting more money for your product. If increasing income isn't going to be an option, then comparing your operating costs against others by benchmarking can give insight into where you might be overspending in your business operations.

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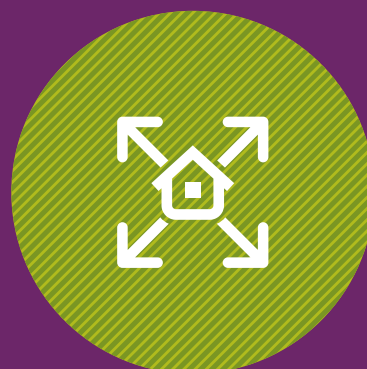
DIFFERENT TYPES
OF VEGETABLES

1

FARM SIZE

The average farm size in the 2017-18 benchmarks was 101ha with the average of the top 25% being lower than this. The farm size didn't have anything to do with the vegetable operating profit of the top 25% of growers but rather the use of the land mattered.

To maximise your vegetable operating profit per hectare analyse each of your vegetable lines and allocate more land area to the vegetables that have a higher operating profit per hectare. However ensure you have a market for the additional product and make sure that rotations are kept in place to minimise any negative affects of disease or weed burdens.



101ha

2017-18 AVERAGE
FARM SIZE



6

TOP GROWING REGIONS:
GINGIN, PERTH METRO,
MYALUP, CARNARVON,
GERALDTON AND MANJIMUP

3 LOCATION

The vegetable benchmarking project covered six of the seven vegetable growing regions in Western Australia (Gingin, Perth Metro, Myalup, Carnarvon, Geraldton and Manjimup).

The top 25% of growers were spread all throughout these areas and therefore the climate didn't affect the vegetable operating profit of the businesses but rather the growers ability to grow the right vegetable in the right region did.

4 VALUE ADDED PRODUCE

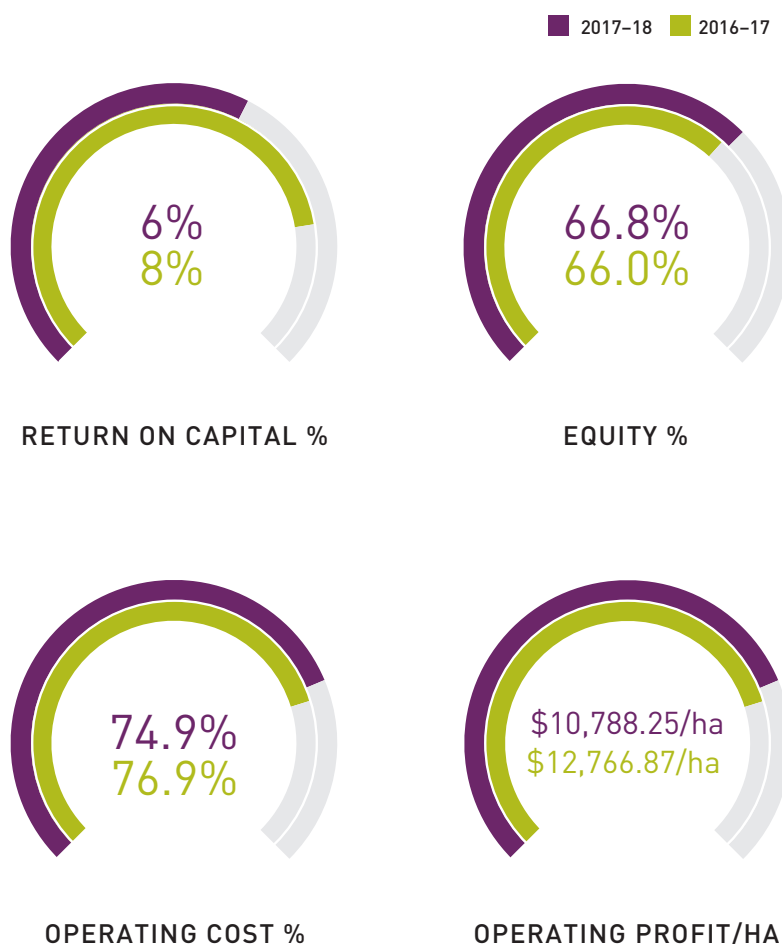
Growers who value added produce were scattered throughout the vegetable benchmarking. More importantly the way the data is collected, any value added and costs associated with processing are taken out of the vegetable operating profit so that we can compare vegetable growers at a farm gate level!



2017-18 COMPARED TO 2016-17

Below the 2017-18 results are compared to the 2016-17 results (please note the 2016-17 results have been further updated since last years publication). It is important to remember that these aren't two years of results from the exact same group of growers, however the same calculations were used.

We can see from the graphs below that the average grower had a better return on capital, equity percentage and better operating profit per ha in the 2016-17 financial year when compared to the 2017-18 year. The only measure where 2017-18 performed better than the previous year was the operating cost percentage.



GROWER PRODUCTIVITY

The benchmarking project has the ability to collect and report on a number of additional key productivity ratios, however, due to business management and record keeping among the majority of participating growers, this information is not able to be generated in the second year of benchmarking.

With more focused yield record keeping, growers will be able to understand for themselves the following key productivity measures:

- **Yield per full time equivalent:** This details the vegetables produced for every full time labour unit.
- **Yield per kilolitre:** This details the vegetables produced for every kilolitre of water used.
- **Yield per labour cost:** This details the vegetables produced for every labour dollar spent.
- **Yield per dollar of chemical and fertiliser:** This details the vegetables produced for every dollar spent on chemicals and fertiliser.

GET INVOLVED

The benchmarking report, while it provides a solid insight into the general financial performance of Western Australian vegetable growers in the 2017–18 financial year, only provides a surface level of detail to actual vegetable business owners.

To understand how to drive increased profitability within your business, through detailed analysis of your financial performance, your vegetable lines and to see how you compare to the top 25% and average vegetable growers, please contact vegetablesWA or Planfarm and enquire about what the vegetable benchmarking project can do for you and your business.

So to get started, start recording as much data as you can about your business and get in touch with vegetablesWA or Planfarm to begin the benchmarking process.



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GLOSSARY

EQUITY PERCENTAGE

This is the dollar equity figure divided by the total assets expressed as a percentage.

LIQUID ASSETS

Defined as assets that are easily transferred into cash. These are defined as cash at bank, accounts receivable, tolls, credits, seed, produce and stores in this report.

OPERATING PROFIT

This is the gross farm income minus the operating expenses.

VEGETABLE INCOME

This is all of the income which is generated from the vegetable enterprise of the business, this is the sales of produce, crate rebates and diesel rebates.

VEGETABLE OPERATING PROFIT

This is the vegetable income minus the vegetable operating expense.





